

TBL's Operating Reserves Business Practices

In the meeting on September 12, 2002, Powerex raised the issues related to TBL's Operating Reserves Business Practices. A number of questions were asked in order to clarify the issues, indicating that there was some unfamiliarity with the commercial trading practices in the wholesale industry. It is hoped that this summary of those practices will help to elaborate on why Powerex views the current Business Practices as problematic.

Industry Standard Preschedule Trade Characteristics

A typical preschedule trading day starts at 0600 Pacific Prevailing Time (PPT) with the bulk of the trades being completed by 0730. Preschedule trading occurs from Monday to Friday. On Thursday, trading occurs for both Friday and Saturday delivery as a combined package. On Friday, trading occurs for both Sunday and Monday delivery as a combined package. The grouping of trading days is an industry standard practice established by the Interchange Scheduling and Accounting Subcommittee of the Western Electricity Coordinating Council (WECC).

Preschedule trading is facilitated through voice brokers, on-line exchanges, and bilateral markets. Brokers and on-line exchanges are predominantly used for trading with only about ten percent of all trades occurring bilaterally. Brokers include PreBon, Amerex, TFS, and APB. On-line exchanges include Bloomberg, TradeSpark, and the Intercontinental Exchange (ICE) and formerly included Enron On Line (EOL), TrueQuote, and Altra. All of these trading mediums, with the exception of EOL and the bilateral trading environment, provide anonymous trading platforms in which the counterparties are not revealed until the trade is confirmed.

Industry standard blocks of power are traded in the preschedule market. They include a Heavy Load Hour (HLH) block and a Light Load Hour (LLH) block. HLH is a 16-hour block, from 0600 to 2200, on Monday through Saturday, excluding NERC holidays. LLH is an 8-hour block, from 2200 to 0600, on Monday through Saturday and all day Sunday and NERC holidays. The typical block size is 25 MW, or 400 MWh for a 16-hour HLH day. 50 MW trades are also common.

The products are traded around various hubs in the west (i.e., Mid-C, COB, PV, NP-15, etc.). The predominant contract traded via this method is the WSPP Schedule C contract. It is the default contract used by the broker markets and exchanges. The bilateral market does trade other types of contracts since it facilitates one-on-one negotiation. However, traders assume all bilateral trades are Schedule C unless another contract is specified. One of the distinguishing characteristics of the Schedule C contract is that the generator provides (pays for) operating reserves to back the contract. The buyer of the contract pays a premium for this fact. However, this is not the only differentiating characteristic, so the other types of contract (WSPP Schedule A or B, EEI, etc.) are not substitutable based on the provision, or not, of operating reserves.

Other Trading Characteristics

The industry also trades forward products ranging from Balance-of-Month through Monthly, Quarterly, Yearly and longer term. Some of these forward products are also standardized to facilitate liquidity in the market (i.e., you only need to negotiate price, not other terms and conditions). The WSPP Schedule C contracts are also used to transact these products. While there is an opportunity to substitute other forms of contract or create custom agreements in these markets, the default contract is Schedule C.

There is also trading in “Real Time” markets. These trades are primarily done bilaterally, which allows modifications to be arranged. However, WSPP Schedule C is once again the default contract. In addition, real time trading activity also takes place after the day-ahead scheduling activities, which are described below.

Day-ahead Scheduling Activities

It is only after the completion of trading (except real-time), that counterparties then arrange for the delivery of the energy. The determination of who will schedule the actual delivery will depend on a number of interdependent factors including the total portfolio of purchases and sales made for the delivery day by each party and the transmission rights held by each party (or that can be acquired from the transmission providers). If there is a disagreement between the parties regarding scheduling, then the seller of the energy will deliver to the trading hub (i.e., Mid-C) and the buyer will receive it at that point.

Once agreement is reached between parties, the transactions are e-tagged and submitted to the various control areas involved in the transaction, along with the various entities in the supply chain. For example, a trade between Marketer A and Marketer B could involve Generator A (in Control Area A) to Marketer C (on Transmission in Control Area A) to Marketer A (on Transmission in Control Area B) to Marketer B (who has agreed to have Marketer A deliver) to Load A (in Control Area B). Numerous counterparties can be involved in the pathing and e-tagging of each transaction.

Impact of TBL’s Operating Reserves Business Practices

Because TBL’s Operating Reserve Business Practice does not recognize that Transmission Customers may arrange for operating reserves as part of the energy purchase, it can result in “after the fact” modifications to products that were traded earlier in the day. The act of delivery on the TBL system alters the “firmness” of a generator’s (located in the TBL control area) energy from non-firm (i.e., no operating reserves) to firm (i.e., carrying operating reserves). While parties have developed means of mitigating some of the impact of the Business Practice, it is the cause of a number of disputes and ongoing inefficiencies in the commercial of energy market, when that energy is sourced in the TBL control area.

While we are sensitive to the need to ensure reliable system operation through the availability of operating reserves, we believe that TBL's Business Practice focuses incorrectly on restricting customer choice rather than on the performance of the parties which provide the operating reserves themselves.

I hope this helps to clarify the reasons that Powerex sees the current Operating Reserve Business Practices as an issue that we would like to resolve.

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